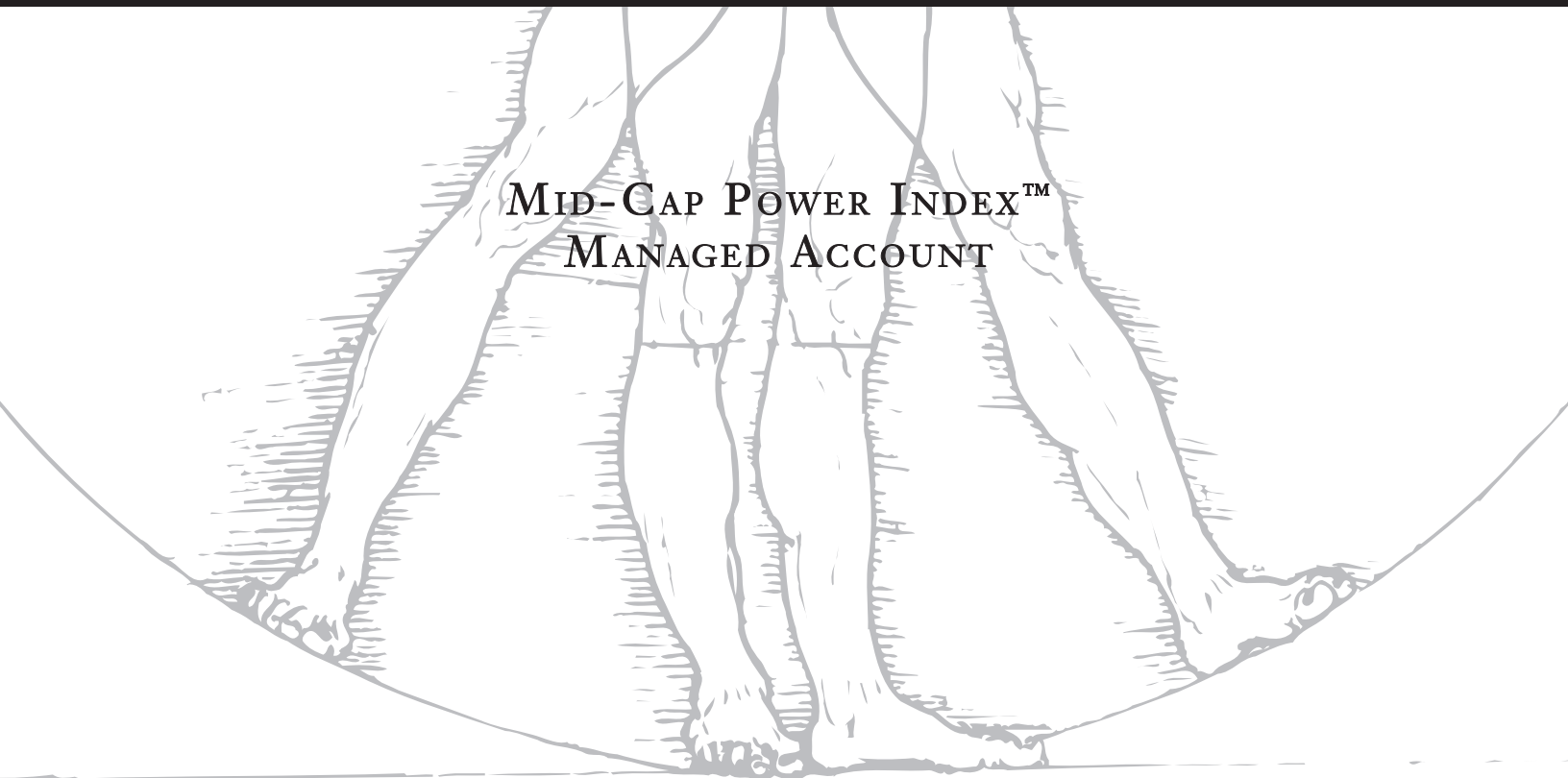


*alpha*

INVESTMENT MANAGEMENT

MID-CAP POWER INDEX™  
MANAGED ACCOUNT



## **Introduction to Power Indexing**

Successful investing is not about predicting next year's economy, corporate earnings growth or interest rate trends. These things cannot be predicted consistently. Even the best and brightest, who make a highly-paid career of it, are systematically wrong.

Instead, successful investing is about finding a sustainable edge – an objective, reality-based factor that can be profitably exploited year after year. Casinos have this kind of edge. Stay at the blackjack table long enough and you will lose all of your money. The casino has the odds in its favor and sooner or later the laws of probability will work for the dealer and defeat the player.

Power indexing is about a sustainable edge. As you will see in the illustrations which follow, the U.S. stock market does not distribute returns randomly over the course of the calendar year. Over time, returns are “skewed” into what we call the annual “power zone” – the six or seven month period beginning in late-October.

There is an old saying on Wall Street: “Sell in May and go away, buy again near turkey day”.

This bit of folk wisdom – derived from practical experience – contains an important insight into the workings of the stock market. There is, indeed, a tilted playing field for investors who know about this effect and its causes. The existence of the “power zone” provides investors with a casino-like edge, which, if exploited consistently over time, has a profound effect on investment returns.

**Dow Performance**  
**November 1 through Third Trading Day of May (Power Zone)**  
**versus**  
**Fourth Trading Day of May through October 31 (Dead Zone)**

**1949 - 2008**

Start Bullish Period (Nov)	Percentage Gain	\$1,000	Start Bearish Period (May)	Percentage Gain	\$1,000	Start Bullish Period (Nov)	Percentage Gain	\$1,000	Start Bearish Period (May)	Percentage Gain	\$1,000
1949	14.1	1,141	1950	4.0	1,040	1979	0.1	7,469	1980	13.3	653
1950	16.9	1,334	1951	(0.3)	1,037	1980	5.2	7,856	1981	(12.3)	573
1951	(0.7)	1,325	1952	3.3	1,072	1981	0.2	7,874	1982	16.1	665
1952	3.3	1,369	1953	(0.9)	1,063	1982	22.3	9,628	1983	1.0	671
1953	15.3	1,578	1954	10.8	1,177	1983	(3.6)	9,285	1984	2.2	686
1954	20.0	1,894	1955	7.7	1,277	1984	3.3	9,591	1985	10.2	756
1955	13.0	2,140	1956	(6.6)	1,183	1985	30.5	12,519	1986	4.7	791
1956	3.7	2,219	1957	(11.4)	1,048	1986	24.5	15,588	1987	(14.7)	675
1957	4.6	2,320	1958	17.8	1,235	1987	2.1	15,923	1988	5.5	712
1958	15.2	2,674	1959	3.3	1,276	1988	11.4	17,739	1989	10.5	787
1959	(5.5)	2,526	1960	(5.0)	1,212	1989	1.9	18,081	1990	(9.4)	713
1960	18.7	2,999	1961	2.2	1,238	1990	20.3	21,757	1991	4.4	744
1961	(4.0)	2,878	1962	(12.7)	1,081	1991	9.5	23,815	1992	(4.0)	715
1962	21.8	3,504	1963	5.2	1,137	1992	6.9	25,460	1993	6.7	763
1963	9.5	3,835	1964	5.6	1,201	1993	0.5	25,578	1994	5.7	806
1964	6.8	4,095	1965	3.1	1,238	1994	11.9	28,622	1995	8.7	877
1965	(4.8)	3,899	1966	(11.8)	1,092	1995	15.2	32,971	1996	10.1	965
1966	11.1	4,332	1967	(1.9)	1,071	1996	19.6	39,447	1997	3.2	995
1967	4.5	4,527	1968	3.6	1,110	1997	22.9	48,487	1998	(6.1)	935
1968	0.7	4,558	1969	(10.7)	991	1998	27.5	61,823	1999	(2.1)	916
1969	(17.1)	3,779	1970	6.5	1,055	1999	(2.3)	60,384	2000	4.7	959
1970	24.1	4,688	1971	(10.5)	944	2000	(1.6)	59,424	2001	(15.9)	806
1971	11.3	5,216	1972	2.4	967	2001	10.3	65,523	2002	(16.1)	676
1972	(0.2)	5,207	1973	0.3	969	2002	1.6	66,573	2003	14.9	777
1973	(11.6)	4,605	1974	(21.3)	763	2003	5.2	70,036	2004	(2.7)	755
1974	28.6	5,920	1975	(2.3)	745	2004	3.6	72,531	2005	0.5	759
1975	18.0	6,985	1976	(2.2)	729	2005	9.2	79,202	2006	6.0	805
1976	(2.5)	6,809	1977	(13.0)	634	2006	9.6	89,811	2007	5.2	847
1977	1.3	6,897	1978	(4.4)	606	2007	(4.8)	82,666	2008	(28.5)	605
1978	8.2	7,464	1979	(4.9)	577						

(Source: Jay Kaepffel, *Seasonal Stock Market Trends*, Wiley, 2008)

**Sell in May – the “Dead Zone”**

- The average daily gain from November to May was 27.4 times higher than the average daily gain of all other days.
- The annualized return of the best six months was 17.1%.
- The Dow posted a gain 81% of the time between November and May.
- The Dow posted a gain 55% of the time between May and November.
- A \$1,000 investment only during the November-to-May period grew to \$82,666.
- A \$1,000 investment only during the May-to-November period shrank to \$605.

Disclosure: Past performance is not a guarantee of future performance. Indexes are not investment vehicles. Index funds may vary somewhat from index returns due to management fees and portfolio structure. The returns illustrated above are not returns of Alpha's program since they do not include management fees or the cost of funds, trading, or other expenses. To see the impact of these costs, please refer to the net of fees and expenses performance data for specific Alpha programs. The illustration is designed to quantify the affect of a certain time period on representative market indexes.

## Causes

Since World War II the stock markets in the U.S. and in over 30 other developed countries have exhibited a non-random distribution of returns over annual periods. In general, the long-term returns of the market tend to be “skewed” into a six to seven month period beginning in late-October. The bulk of bear markets and other market corrections tend to occur in the five to six month period from May to November. Since 1949, a \$1,000 investment in the Dow Industrials during the six-month period from early-May to the end of October has declined 40% (appreciation only, ending 2008). On the other hand, a \$1,000 investment in the Dow over the favorable six months has grown to over \$82,000 over the same period (appreciation only, ending 2008). Clearly a structural cause is at work in the marketplace.

We believe that this skewing of returns into the November through April/May period is caused by the annual forecasting cycle. All developed countries employ an army of investment “experts” who predict corporate earnings and economic growth. This well-publicized body of opinion has a causal effect on the behavior of both institutional and individual investors. The effect follows a fairly predictable pattern.

Investors tend to believe that experts can consistently and accurately predict earnings. Certainly Wall Street and the investment industry promote this image. It is, however, a proven fact that the experts tend to be spectacularly wrong and that they exhibit “herd” behavior. In general, expert predictions of earnings growth tend to be overly optimistic as does economists’ predictions of economic growth.

The forecasting cycle tends to unfold along the following lines: As the year comes to a close, forecasters project next year’s earnings growth for the companies that they follow. These estimates are usually overly optimistic. At beginning of the new year, the estimates for growth are revised upward. This causes a positive climate for stocks late in the year and in the first few months of the new year. By mid-year, reality begins to sink in and estimates start to be revised downward. The pace of downward revisions accelerates in the third quarter. By then, investors are getting a much clearer view of earnings for the year and this causes a negative climate for the market. Then the cycle repeats.

Naturally, this does not happen like clockwork. Sometimes earnings estimates are off the mark by being too conservative and the market enjoys robust returns during the late summer and early fall. In strong secular bull markets this can happen several years in a row. Since 1949, the Dow Industrials have been up 55% of the time during the six-month period from May to November. Eventually, however, the laws of probability catch up and produce the dismal long-term returns of this period cited earlier.

Small-cap stocks, being more speculative, exhibit a more pronounced tendency to decline during the June to November period. Naturally, the earnings for these companies are more volatile and subject to more dramatic downward revisions. Investors in this sector of the market need to be especially cautious during the four-month “dead zone” for small company stocks. Since the inception of the Russell 2000 index in 1979, the index has declined 17 times from July to November, producing a negative 2.4% rate of return for the period.

For long-term investors seeking to control risk, particularly in accounts which are tax-deferred, the prudent course of action is to avoid the five to six month “dead zone” altogether and sit it out in conservative bonds. This policy has paid off in spades over the past 60 years, especially during multi-year bear markets. Since the annual forecasting cycle is a reflection of human nature, there is every reason to believe that it will continue to exert an influence on the distribution of stock market returns, tilting the playing field in favor of long-term investors who exploit it.

## **Mid-Cap Power Index™**

**The Mid-Cap Power Index is constructed by holding the S&P MidCap 400 Index from November 1 through May 31; then holding the Barclays Capital Intermediate Treasury Index from June 1 through October 31. Illustrations begin with the inception of the index in 1981.**

**Seasonal Patterns  
S&P MidCap 400 Index  
1981 - 2011**

<b>DEAD ZONE</b>			<b>POWER ZONE</b>		
<b>S&amp;P MIDCAP 400</b>			<b>S&amp;P MIDCAP 400</b>		
<b>YEAR</b>	<b>% CHANGE JUNE 1 - OCT 31</b>	<b>INVESTING \$ 1,000</b>	<b>YEAR</b>	<b>% CHANGE NOV 1 - MAY 31</b>	<b>INVESTING \$ 1,000</b>
1981	-3.8%	\$ 962	1981-82	-2.3%	\$ 977
1982	18.3%	\$ 1,138	1982-83	35.5%	\$ 1,324
1983	-0.9%	\$ 1,128	1983-84	-9.3%	\$ 1,201
1984	10.5%	\$ 1,246	1984-85	20.5%	\$ 1,447
1985	4.1%	\$ 1,297	1985-86	33.6%	\$ 1,933
1986	-1.2%	\$ 1,281	1986-87	13.6%	\$ 2,196
1987	-17.3%	\$ 1,059	1987-88	13.9%	\$ 2,501
1988	6.5%	\$ 1,128	1988-89	23.5%	\$ 3,089
1989	5.8%	\$ 1,193	1989-90	8.2%	\$ 3,342
1990	-20.0%	\$ 954	1990-91	49.1%	\$ 4,983
1991	8.0%	\$ 1,030	1991-92	7.2%	\$ 5,342
1992	3.3%	\$ 1,064	1992-93	14.8%	\$ 6,133
1993	5.9%	\$ 1,127	1993-94	-1.8%	\$ 6,023
1994	4.2%	\$ 1,174	1994-95	8.9%	\$ 6,559
1995	11.3%	\$ 1,307	1995-96	15.4%	\$ 7,569
1996	1.7%	\$ 1,329	1996-97	16.2%	\$ 8,795
1997	14.2%	\$ 1,518	1997-98	13.8%	\$ 10,009
1998	-6.2%	\$ 1,424	1998-99	19.4%	\$ 11,951
1999	1.4%	\$ 1,444	1999-00	19.8%	\$ 14,317
2000	9.9%	\$ 1,587	2000-01	0.9%	\$ 14,446
2001	-13.2%	\$ 1,378	2001-02	18.0%	\$ 17,046
2002	-19.3%	\$ 1,112	2002-03	12.6%	\$ 19,194
2003	16.1%	\$ 1,291	2003-04	9.1%	\$ 20,941
2004	1.7%	\$ 1,313	2004-05	12.0%	\$ 23,454
2005	5.0%	\$ 1,379	2005-06	10.1%	\$ 25,823
2006	3.1%	\$ 1,422	2006-07	17.6%	\$ 30,368
2007	-0.5%	\$ 1,415	2007-08	-2.0%	\$ 29,761
2008	-35.2%	\$ 917	2008-09	2.6%	\$ 30,535
2009	15.3%	\$ 1,057	2009-10	16.7%	\$ 35,634
2010	9.4%	\$ 1,156	2010-11	21.6%	\$ 43,331
2011	-10.7%	\$ 1,032	2011-12	TBA	TBA
<b>Losing Periods</b>		<b>11</b>	<b>Losing Periods</b>		<b>4</b>
<b>Winning Periods</b>		<b>20</b>	<b>Winning Periods</b>		<b>26</b>
<b>31 Yr Gain / (Loss)</b>		<b>\$ 32</b>	<b>30 Yr Gain / (Loss)</b>		<b>\$ 42,331</b>
<b>Compound Annual Return</b>		<b>0.1%</b>	<b>Compound Annual Return</b>		<b>13.4%</b>

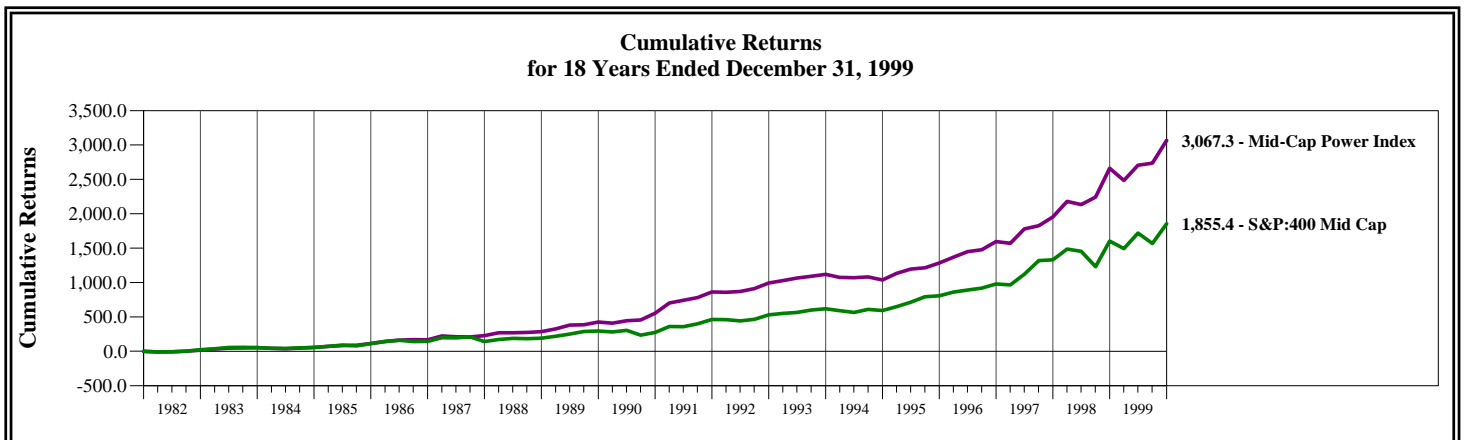
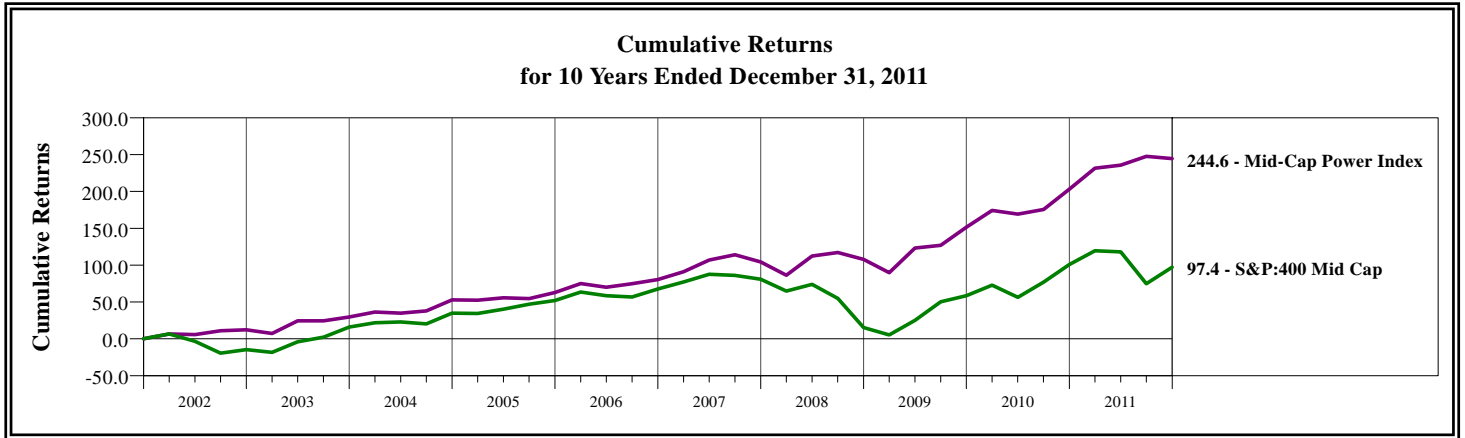
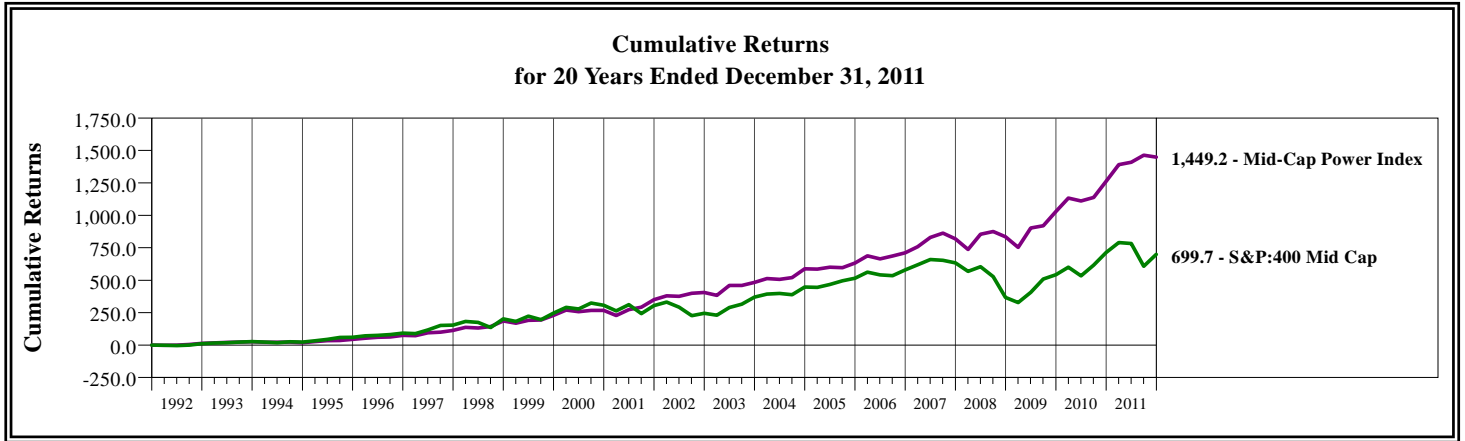
Note: Dividends included. Data Source: Callan Associates Database

**Mid-Cap Power Index  
Calendar Year Returns  
1981 - 2011**

YEAR	S&P MIDCAP 400	INVESTING		ALPHA	
		\$	1,000	MID-CAP POWER INDEX	INVESTING \$ 1,000
1981	11.1%	\$	1,111	21.0%	\$ 1,210
1982	22.7%	\$	1,363	17.9%	\$ 1,427
1983	26.1%	\$	1,719	31.0%	\$ 1,869
1984	1.2%	\$	1,740	1.7%	\$ 1,901
1985	35.6%	\$	2,359	36.7%	\$ 2,599
1986	16.2%	\$	2,741	25.1%	\$ 3,251
1987	-2.0%	\$	2,686	21.9%	\$ 3,963
1988	20.9%	\$	3,247	18.7%	\$ 4,704
1989	35.6%	\$	4,403	35.7%	\$ 6,383
1990	-5.1%	\$	4,178	24.1%	\$ 7,921
1991	50.1%	\$	6,271	47.3%	\$ 11,668
1992	11.9%	\$	7,017	13.4%	\$ 13,232
1993	14.0%	\$	7,999	11.8%	\$ 14,793
1994	-3.6%	\$	7,711	-6.7%	\$ 13,802
1995	31.0%	\$	10,101	21.6%	\$ 16,783
1996	19.2%	\$	12,040	22.4%	\$ 20,542
1997	32.3%	\$	15,929	21.2%	\$ 24,897
1998	19.1%	\$	18,971	34.4%	\$ 33,462
1999	14.7%	\$	21,760	14.7%	\$ 38,381
2000	17.5%	\$	25,568	11.9%	\$ 42,948
2001	-0.6%	\$	25,415	22.3%	\$ 52,525
2002	-14.5%	\$	21,730	12.4%	\$ 59,038
2003	35.6%	\$	29,466	15.5%	\$ 68,189
2004	16.5%	\$	34,328	17.9%	\$ 80,395
2005	12.6%	\$	38,653	6.4%	\$ 85,540
2006	10.3%	\$	42,634	10.9%	\$ 94,864
2007	8.0%	\$	46,045	13.2%	\$ 107,386
2008	-36.2%	\$	29,377	1.7%	\$ 109,212
2009	37.4%	\$	40,364	21.0%	\$ 132,147
2010	26.6%	\$	51,101	20.6%	\$ 159,369
2011	-1.7%	\$	50,232	13.6%	\$ 181,043
<b>Compound Annual Return</b>					
<b>31 Yrs</b>	<b>13.5%</b>			<b>18.3%</b>	
<b>20 Yrs</b>	<b>11.0%</b>			<b>14.7%</b>	
<b>10 Yrs</b>	<b>7.0%</b>			<b>13.2%</b>	
<b>5 Yrs</b>	<b>3.3%</b>			<b>13.8%</b>	

Note: S&P MidCap 400 Index with dividends. Interest June through October calculated monthly using the Barclays Capital Intermediate Treasury Index. Data Source: Callan Associates Database.

# Mid-Cap Power Index™



Disclosure: The Mid-Cap Power Index is constructed by holding the S&P MidCap 400 Index from November 1 to May 31; then holding the Barclays Capital Intermediate Treasury Index from June 1 to October 31.

# Mid-Cap Power Index™ Managed Account Model Portfolio

## **Management Formula**

The Alpha Mid-Cap Power Index Managed Account seeks to enhance the performance of the index so as to approximate or exceed the returns of the index net of fees and expenses.

Alpha's enhancement process follows a strict discipline based upon our research into seasonal factors which influence the market in a predictable way.

**Enhancement #1:** Each year we add market exposure in the final two days of October.

**Enhancement #2:** In the third year of the presidential election cycle, we add exposure for the first three days of June.

**Enhancement #3:** For 20 days in the fourth quarter, over three separate time periods, we leverage the mid-cap index by 50%. These time periods have a historical win rate of 85% to 90%.

## **Model Portfolio**

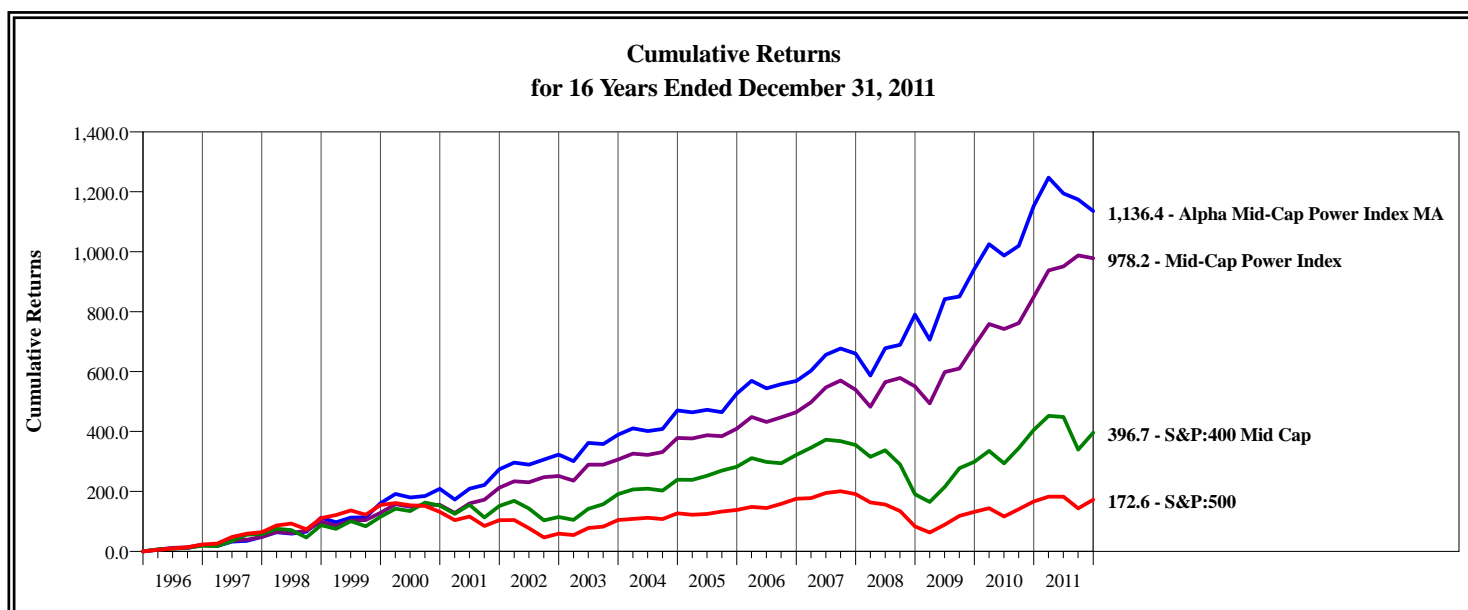
We apply these enhancements to a model portfolio. The model portfolio is constructed from the S&P MidCap 400 Index and the Barclays Capital Intermediate Treasury Index. Actual managed accounts use index funds and bond funds which may vary from custodian to custodian.

## **Net of Fees and Expenses**

For returns prior to January 2010, we deduct .75% per quarter, or 3% annually, from the model portfolio returns to approximate the effect of mutual fund expenses and Alpha's fees. This represents 1% annually for fund expenses and 2% annually for Alpha's maximum fee. We believe this is a generous allowance for expense computation under most circumstances.

Beginning January 2010, actual client net composite returns are used. The client composites are weighted by account size and assets included in the composites are net of all fees and trading expenses. Alpha's management fees range from 0.8% annually to 2.0% annually.

## Mid-Cap Power Index™ Managed Account Model Portfolio Performance History *Net of Fees and Expenses*



**Annual Returns for Calendar Years  
16 Years Ended December 31, 2011**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Alpha Mid-Cap Power Index MA	-1.32	20.20	17.07	17.15	13.62	6.79	9.71	16.62	15.72	13.11	21.19	18.39	22.69	42.77	22.71	21.28
Mid-Cap Power Index	13.61	20.61	20.96	1.71	13.21	10.87	6.40	17.92	15.45	12.43	22.33	11.86	14.67	34.36	21.24	22.41
S&P:400 Mid Cap	-1.73	26.64	37.38	-36.23	7.98	10.31	12.56	16.48	35.62	-14.51	-0.60	17.50	14.73	19.11	32.25	19.20
S&P:500	2.11	15.06	26.47	-37.00	5.49	15.79	4.91	10.88	28.68	-22.10	-11.89	-9.11	21.04	28.58	33.36	22.96

**Compound Annual Returns  
for Periods Ended December 31, 2011**

	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 6 Years	Last 7 Years	Last 8 Years	Last 9 Years	Last 10 Years	Last 11 Years	Last 12 Years	Last 13 Years	Last 14 Years	Last 15 Years	Last 16 Years
Alpha Mid-Cap Power Index MA	-2.98	-1.32	8.91	11.57	12.94	13.07	12.00	11.67	12.28	12.65	12.70	13.45	13.85	14.51	16.33	16.74	17.02
Mid-Cap Power Index	-0.90	13.61	17.06	18.34	13.95	13.80	13.31	12.29	12.98	13.25	13.17	13.97	13.80	13.86	15.22	15.61	16.02
S&P:400 Mid Cap	12.98	-1.73	11.56	19.57	2.18	3.32	4.45	5.57	6.88	9.74	7.04	6.32	7.21	7.77	8.54	9.98	10.54
S&P:500	11.82	2.11	8.39	14.11	-1.64	-0.25	2.26	2.64	3.63	6.16	2.92	1.48	0.55	1.99	3.70	5.45	6.47

**Legend:** The Mid-Cap Power Index represents the S&P MidCap 400 Index held from November 1 to May 31 and the Barclays Capital Intermediate Treasury Bond Index held from June 1 to October 31. The Alpha Mid-Cap Power Index MA represents the managed enhancement of the Mid-Cap Power Index net of fees and expenses (see brochure for details).

**Disclosure:** Past performance is not a guarantee of future performance. \*Returns presented above are hypothetical prior to January 2010 and represent a reduction in gross returns of 3% annually for fees and expenses. Beginning January 2010, actual client net composite returns are used. The client composites are weighted by account size and assets included in the composites are net of all fees and trading expenses. Alpha's management fees range from 0.8% annually to 2.0% annually. This strategy may be executed using variable annuity company products which may increase the total expense factor. These expense factors cannot be quantified in advance. Potential investors should inquire as to the exact additional costs of these investment venues. Even though the enhancements of the Mid-Cap Power Index are mechanical, objective, and fully disclosed, hypothetical models must be approached with caution because they are created with the benefit of hindsight and do not represent how the manager of the model may react under material economic and market conditions. Actual accounts may use funds which deviate from the indexes represented in the model illustration. No matter how positive the model returns have been over any time period, the potential for loss is always present due to factors in the future which may not be accounted for in the model.

## Disclosure to Power Index Data and Illustrations

Alpha Power Indexes are not investable. Indexes are mathematical formulations, not investment vehicles. Index funds, ETFs and other investment instruments may attempt to replicate their benchmark indexes but will always deviate from the exact returns of the index by the effects of fees, trading expenses, rebalancing errors, and other factors.

Alpha Power Indexes were created using an explicit and objective policy to combine an equity index with a fixed-income index over pre-determined and rigorously applied time periods. No representation is made that accounts managed by Alpha, which seek to replicate the indexes, will provide identical performance.

The Alpha Mid-Cap Power Index Managed Account is an attempt to enhance the Mid-Cap Power Index using well-defined objective rules which are mechanically applied over time. Backtested performance does not represent actual account performance. Backtested or hypothetical data must be approached with caution because it is constructed with hindsight and may not reflect material conditions that could affect a manager's decision process, thus altering the application of the discipline. There is no assurance that these backtested results could, or would have been achieved by Alpha during the periods presented. Performance presented since January 2010 represent actual net of fees and expenses results of the Alpha client composite.

Past performance does not guarantee future performance. While Alpha believes that the factors which have historically "skewed" market returns into the "power zone" (consisting of the time period from late October to late May) will continue to affect the market statistically over time, there can be no guarantee that this effect will persist or that it will have the same intensity as past time periods.

The SEC mandates that we state: The investment strategy that the backtested results were based upon can (theoretically) be changed at any time with the benefit of hindsight in order to show better backtested results, and (theoretically) the strategy can continue to be tested and adjusted until the desired results are achieved. Please note that Alpha has not made any data-fitting adjustments to its managed account model.

The data used to construct the Alpha Power Indexes were obtained from a database provided by Callan Associates, one of the oldest and largest institutional investment consultants in the U.S. While Alpha believes that the data is accurate, we cannot guarantee it to be so.

